

Order 2000-12-11
Served: December 18, 2000

UNITED STATES OF AMERICA
DEPARTMENT OF TRANSPORTATION
OFFICE OF THE SECRETARY
WASHINGTON, D.C.



Issued by the Department of Transportation
on the 18th day of December, 2000

Essential Air Service at

ADAK, ALASKA

under 49 U.S.C. 41731 *et seq.*

Docket OST-00-8556

**ORDER SETTING FINAL RATE UNTIL FURTHER DEPARTMENT
ACTION**

Summary

By this order we are setting a short-term subsidy rate for Peninsula Airways' essential air service at Adak, Alaska, until further Department action.

Discussion

On December 5, 2000, Reeve Aleutian Airways, Inc., (Reeve) ceased operating scheduled service in Alaska, leaving Adak with no air service. Reeve has continued to provide some charter and contract service since then on a very reduced level. Adak is a community toward the end of the Aleutian Islands located on an island 445 miles west of Dutch Harbor, the nearest community with scheduled jet service. As a practical matter, air service is the only means of transportation to or from Adak.

Adak's essential air service determination was determined by Order 80-1-167 to require 5 round trips a week during the peak and 4 round trips a week during the off-peak to Anchorage, with up to two intermediate stops. The determination requires service with large aircraft, 60 seats or more. Anchorage is 1,192 miles distant. For many years Adak served as a naval base, but the base gradually shrunk and ultimately closed a few years ago. As a result of the decreased demand, and based on agreement between the state of Alaska and the Department, Reeve reduced service below the level required by

Adak's EAS determination. A village remains at Adak, notwithstanding the closing of the military base.

With the cessation of service by Reeve, the only carrier providing scheduled service beyond Dutch Harbor is Peninsula Airways, Inc., (Peninsula). After discussions with other carriers, only Peninsula submitted a proposal. Given the sudden loss of service, the extreme isolation of Adak, and Peninsula's ability to inaugurate service almost immediately, we negotiated a rate with Peninsula for immediate replacement service.

The carrier has proposed to provide 6 nonstop round trips a week between Adak and Dutch Harbor with 8-seat Cessna Conquest pressurized-turboprop aircraft. Based on discussions with the community, Peninsula, and Reeve, it appears that this level of service should meet most of the community's short-term needs. There may still be occasional over-bookings on the critical outbound leg,¹ but Peninsula indicates it will strive to meet the community's need for capacity. With additional time Peninsula anticipates being able to provide service with larger aircraft such as the 19-seat Metro III.

If it becomes clear that Peninsula will require subsidy on a long-term basis, the Department would issue a Request for Proposals to give all potential applicants an opportunity to submit proposals. We have therefore made this rate effective only until further Department action and we will closely monitor the air service situation at Adak.

Carrier Fitness

49 U.S.C. 41737(b) and 41738 require that we find an air carrier fit, willing and able to provide reliable service before we may compensate it for essential air service. The Department has routinely monitored the carrier's continuing fitness. The Federal Aviation Administration has advised us that the carrier is conducting its operations in accordance with its regulations, and knows of no reason why we should not find that Peninsula remains fit. Peninsula has experience providing essential air service in the vicinity of Adak, and, based on its operating record, we find that the carrier continues to be fit to provide the essential air transportation at issue in this case.

Other Carrier Requirements

The Department is responsible for implementing various Federal statutes governing lobbying activities, drug-free workplaces and nondiscrimination.² Consequently, all carriers receiving Federal subsidy to support essential air service must certify that they

¹ At Adak, typical of intra-Alaska air service, there is a directional imbalance in the volumes of mail and freight. Approximately 85% of total mail and freight moves into Adak and about 15% is outbound, as food and supplies are brought in to Adak from the mainland. Thus flights into Adak will be relatively full while flights leaving Adak will be relatively empty.

² The regulations applicable to each of these three areas are (1) 49 CFR Part 20, New Restrictions of Lobbying, implementing title 31, United States Code, section 1352, entitled, "Limitation on use of appropriated funds to influence certain Federal contracting and financial transactions"; (2) 49 CFR Part 29, Subpart F, Drug-Free Workplace Requirements (Grants), implementing the Drug-Free Workplace Act of 1988; and (3) 49 CFR Part 21, Nondiscrimination in Federally-Assisted Programs of the Department of Transportation -- Effectuation of Title VI of the Civil Rights Act of 1964; 49 CFR Part 27, Nondiscrimination on the Basis of Handicap in Programs and Activities Receiving or Benefiting from Federal Financial Assistance; and 14 CFR Part 382, Nondiscrimination on the Basis of Handicap in Air Travel.

are in compliance with Department regulations regarding drug-free workplaces and nondiscrimination, and those carriers whose subsidies exceed \$100,000 over the life of the rate term must also certify that they are in compliance with the regulations governing lobbying activities. Peninsula has so certified.

This order is issued under authority delegated in 49 CFR 1.56a(f).

ACCORDINGLY,

1. The Department authorizes a final subsidy rate for Peninsula Airways, Inc., for the provision of essential air service at Adak, Alaska, as described in Appendix C, payable as follows: for each calendar month during which essential air service is provided, the amount of compensation shall be subject to the weekly ceiling and shall be determined by multiplying the subsidy-eligible flights each way completed during the month between the hub of Dutch Harbor and Adak by \$466.74;³

2. We direct Peninsula to retain all books, records, and other source and summary documentation to support claims for payment and to preserve and maintain such documentation in a manner that readily permits the audit and examination by representatives of the Department. Such documentation shall be retained for seven years or until the Department indicates that the records may be destroyed. Copies of flight logs for aircraft sold or disposed of must be retained. The carrier may forfeit its compensation for any claim that is not supported under the terms of this order; and

3. The Department will serve copies of this order on the Governor and Department of Transportation of the State of Alaska, and Peninsula Airways, Inc.

By:

Francisco J. Sanchez
Assistant Secretary for Aviation
and International Affairs

(SEAL)

*An electronic version of this document is available on the World Wide Web at
<http://dms.dot.gov>*

³ See Appendix C for calculation.

Appendix C

Peninsula Airways, Inc., Essential Air Service to be Provided to Adak

Effective Period: December 11, 2000, until further Department action

Scheduled Service:

6 nonstop round trips per week to Dutch Harbor.

Aircraft: 8-seat Conquest C-441, pressurized turbo-prop

Subsidy Rate per Departure/Arrival: \$466.74 ¹

Weekly Compensation Ceilings: \$5,600.88 ²

Note:

The carrier understands that it may forfeit its compensation for any flights that it does not operate in conformance with the terms and stipulations of the rate order, including the service plan outlined in the order and any other significant elements of the required service, without prior approval. The carrier understands that an aircraft take-off and landing at its scheduled destination constitutes a completed flight; absent an explanation supporting subsidy eligibility for a flight that has not been completed, such as certain weather cancellations, only completed flights are considered eligible for subsidy. In addition, if the carrier does not schedule or operate its flights in full conformance with this order for a significant period, it may jeopardize its entire subsidy claim for the period in question. If the carrier contemplates any such changes beyond the scope of the order during the applicable period of these rates, it must first notify the Office of Aviation Analysis in writing and receive written approval from the Department to be assured of full compensation. Should circumstances warrant, the Department may locate and select a replacement carrier to provide service on these routes. The carrier must complete all flights that can be safely operated; flights that overfly points for lack of traffic will not be compensated. In determining whether subsidy payment for a deviating flight should be adjusted or disallowed, the Department will consider the extent to which the goals of the program are met and the extent of access to the national air transportation system provided to the community.

If the Department unilaterally, either partially or completely, terminates or reduces payments for service or changes service requirements at a specific location provided for under this order, then, at the end of the period for which the Department does make payments in the agreed amounts or at the agreed service levels, the carrier may cease to provide service to that specific location without regard to any requirement for notice of such cessation. Those adjustments in the levels of subsidy and/or service that are mutually agreed to in writing by the parties to the agreement do not constitute a total or partial reduction or cessation of payment.

Subsidy contracts are subject to, and incorporate by reference, relevant statutes and Department regulations, as they may be amended from time to time. However, any such statutes, regulations, or amendments thereto shall not operate to controvert the foregoing paragraph.

¹ \$291,247 annual compensation, divided by 624 annual one-way flights at Adak that can be ascribed to each community, calculated as follows: 6 r.t./week x 2 x 52 weeks = 624

² 12 flights per week x \$466.74 = \$5,600.88.

Appendix B

Peninsula Airways, Annual Subsidy Need at Adak, Alaska, Docket OST-00-6245

Aircraft Type	C-441 Conquest
Block Hours	1,248 1/
Pax. Revenue @ \$255.81	\$598,595 2/
Mail Revenue	\$584,022 3/
Total Revenue	\$1,182,617
Pilot & Co-Pilot @ \$309.03/hr.	\$385,669
Fuel & Oil @ \$102.77/hr.	\$128,257
Other @ \$68.16/hr.	\$85,064
Maintenance @ \$281.38/hr.	\$351,162
Depreciation @ \$119.43/hr.	\$149,049
Subtotal Direct	\$1,099,201
Indirect Expense @ 27.7%	\$304,479
Total Operating Expense	\$1,403,680
Return at 5%	\$70,184
Total Economic Cost	\$1,473,864
Annual Subsidy @ 100%	\$291,247

1/ DUT-ADK: 2 hrs./flt. x 6 r.t./week x 2 x 52 weeks = 1,248 block hours.

2/ 45 pax. /week x 52 weeks = 2,340 pax.

3/ 117 tons @ \$4,991.64 per ton.

Note: There is no freight projected at this time because of the high volume and directionality of mail and the fact that mail has higher priority than freight.